

CHAPTER 8

Looking Forward: Emerging Challenges

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LOOKING FORWARD: EMERGING CHALLENGES

Globalization

New challenges are emerging in the Asia Pacific and globally. The challenge of globalization has been with us since the early 1990s. Its impact was fully felt by the region in 1997 when hit by the financial crisis, resulting in severe setbacks.

Norms, practices and institutions in the Asia Pacific region have not adjusted completely to this challenge, although the region has recovered economically and is in a rather strong position financially. However, the challenge remains broad-ranging and exerts pressures, not only in the economic field, but also in the political field and even on values systems.

Globalization continues to be a very strong force, as can be seen from the continuing trends towards outsourcing and the migration of manufacturing capacity to countries that can produce at least cost, such as China.

In the economic field, there are serious problems, such as the trans-Pacific imbalances, which the region is trying to overcome. However, adjustments might prove far more difficult in the political and cultural fields. Developing societies that have weak political institutions and systems with little transparency have been forced to open up and to implement the rule of law, often with destabilizing results. Values or cultural systems are also under pressure for change. Groups in society that enjoy the benefits of globalization welcome the changes, but the poor and those that have been deprived of the fruits of globalization resist change, because they cannot adjust to its speed and consequences. In response, they will cling harder to their old traditions, based on religion, ethnicity and race, which give them a sense of certainty and security in the face of globalization.

That is why there is a strong trend towards conservatism.

Globalization has produced a recent backlash in the European Union (EU), where a majority of the French (55 per cent) and the Dutch (62 per cent) rejected the EU "Constitution for Europe". There are a number of reasons for the rejection, but the main one is the "angst" about the dramatic impact of globalization on the welfare system that has been in place since the end of World War II and the need for more liberalization and flexibility in the system, including in the labor market. This angst has generated increased nationalism and xenophobia. That, in turn, is causing resistance to immigration. The influx in immigrants which is necessary economically is proving to be politically unpalatable. The angst is also manifested in fears that "Polish plumbers" will take over jobs in "old Europe" and fears about Turkey's membership in the EU.

In the Netherlands, there is increased xenophobia particularly towards Muslim immigrants, who are seen as not being able to assimilate into society. There is also a deep concern about Brussels' further intrusion into Dutch tradition and "culture", which people feel have been chipped away due to centralization. The Dutch also feel that they have been paying too much for the EU, while the big countries such as Germany and France have got away with everything.

Outsiders have always seen the EU as the most successful and integrated regional entity and the one that has the best chance to face globalization. But its expansion into 25 members, with 10 new members, could not produce unity in facing the changes. The countries of the new "Europe" (the former

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Central European and Baltic states), which were suppressed for so long under the Soviet Union regime, have opted for a more liberalized economy, and globalization has made that possible.

Thus, it is not only the developing nations that have problems with globalization. Developed nations are faced with similar challenges. The Japanese economy, for instance, is under enormous pressures to change and to become more flexible. To survive, companies now must abandon employment for life, lay off workers when necessary, and pay more attention to the interests of shareholders. Some components of Japan's worker-friendly system, which is so much better than in the United States, could be maintained, but it will no longer be possible to implement the system as absolutely and indefinitely as before.

This is also true for the Europeans. They can still have their welfare system, but it cannot be as absolute as before. In that sense, the rejection of the European Constitution signifies a rejection of the new changes and a desire to cling to the old model.

The United States (US) appears to have been slightly better off in facing the challenges which are troubling Europe. However, there is also an increased opposition – and paranoia – towards “outsourcing” and the migration of manufacturing capabilities to countries abroad. That is why the US–Central America Free Trade Agreement faced such a difficult passage through the US Congress.

The growth of world trade and economic growth have been the results of opening economies to globalization. But many societies have not been able to deal with the “other” (negative) impacts of globalization: social injustice, growing

income gaps, marginalization of the weak and the poor, and rapid changes in political and cultural values and systems. That is why education and training and the provision of health care are the most important instruments for overcoming the negative impacts of globalization. Everybody has to get the same chance to participate in and thrive on globalization.

International Terrorism

The threat of global and regional terrorism is a new challenge, alongside the challenge of economic globalization. The evil genius of Osama bin Laden used the war against the Soviet Union in Afghanistan to create solidarity amongst terrorist organizations everywhere and to employ them against the US and the West after the Soviet Union was defeated in Afghanistan.

International terrorism is also present in the Asia Pacific, organized through regional extremist groups such as Jemaah Islamiyah and other local groups that have their own agenda and objectives, beyond targeting the US and the West. They have been assisted by networks, technical expertise, training, weapons and money from al-Qaeda.

These globalized networks are also the reason why there has to be international and regional cooperation to fight them, especially in the areas of intelligence, police work, border control, legal cooperation, and intercepting outside funding. Military means might be possible in a very few instances, but is not the rule. Democracy, human rights and the rule of law must be observed in order to have the moral high ground and the political upper hand in fighting terrorism.

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For East Asians, international terrorism is important, but it is not the only important security agenda. Poverty, the challenge of development and nation building are still relatively more urgent political and security challenges. For instance, Indonesia, with its moderate Muslims in the majority, always had to deal with small groups of “extremist” Muslims who wanted to establish a Muslim state or to implement the “Syariah” law.

In the end, national, regional or international efforts must address the root causes of extremism and radicalism that make people prone to using terrorist means. The ideological struggle between “modernist” and “traditionalist” is a critical development in the Muslim world. The modernists should be supported in their efforts and struggle to establish a viable “democracy” and a successful economy with “social justice”. Only if they are successful in such endeavor can they argue with the traditionalists that going back to the idea of a Muslim state, a “khalifah”, is no longer relevant. And only then can they demonstrate that Muslims can run a modern state.

Thus, while cooperation against terror is welcomed, the US and the West should recognize the need to support countries in East Asia in their efforts towards national development and modernization. Failure to do so could increase the threat of terrorism in the region.

The Rise of China

The Asia Pacific region and the world are facing a further new challenge, namely the rise of China. This could be followed by the rise of yet another large country and economy, India. The impact of China’s rise is already felt. It is imperative that some political, economic and

even security arrangements that involve China are established in the Asia Pacific region. The sooner this happens, the better it will be for the region and for the world.

In the economic field, there is a growing trade imbalance between the US and China, amounting to US\$150 billion in favor of China. This is a problem because of the huge overall trade deficit of the US. Rather than addressing the overall trade imbalance, the debate in the US has focused on the value of the yuan, problems of outsourcing, the migration of manufacturing capabilities to China, job losses due to infringement of intellectual property rights and piracy by China. But cheap imports from China have contributed to the control of inflation in the US, and China has become a major creditor nation of the US through the purchase of large amounts of US Treasury notes. Moreover, a large portion of imports from China consists of products from US multinationals operating in China and other parts of the region that are assembled in China and then exported to the US. This shows how interwoven the US and China have become economically.

This is also the case with Japan. China has become Japan’s main trading partner and Japanese investments in China in the last few years have multiplied. Japan’s economic recovery has been partly aided by its increased exports to China, given their large complementarities. Their bilateral trade is now worth over US\$250 billion.

This means that putting pressures on China in finance and trade or trying to hamper her economic growth through various rules and means will not work because the interdependence between the US and China

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as well as Japan and China has become real and deep.

This is also happening in the political field. China's political influence in the region is real, but is not yet extraordinary. She is a newcomer and has had some bad spots in her relationship with the region. For example, from the 1950s to the 1970s she subverted Southeast Asian countries by assisting local communist parties to oppose legitimate governments.

Relations with Southeast Asia have improved. China has employed astute diplomacy, including trade diplomacy. However, there are limits. She is not a big investor in the Association of Southeast Asian Nations (ASEAN) yet and her investments are mainly in the development of energy and resources, which she really needs. It seems that she is mainly using her trade as a vehicle of influence in Southeast Asia.

China will, and has the right to, become a major player. However, it is the suddenness of her emergence, the magnitude of her economic expansion and the assertiveness of her diplomacy that have aroused a sense of anxiety, especially amongst her neighbors. There are no obvious reasons why China could not maintain her annual economic growth of 8–10 per cent in the next 20 years or so. She will definitely emerge as a major power.

The history of the rise of Germany in the 19th and early 20th centuries showed that it has never been easy to cope with a new rising power. It is not immediately obvious that this will not be the case with China's rise too.

Throughout the 1990s China's economic expansion did not create major disruptions in global trade as her exports were mainly in labor-intensive and low-tech manufactures, which

are complementary to the output of industrialized countries. However, this is rapidly changing. As China's exports of advanced technological products increase rapidly, especially in telecommunications and information technology, resistance from other countries will be greater and more formidable.

It needs to be noted, however, that as distinct from the case of Germany mentioned earlier, China's economy is already much more integrated with the economies of her major partners, the US and Japan, and with that of the EU. Therefore, boycotts or other trade-restricting actions, such as quotas for textiles or the imposition of high tariffs on imports, will hurt the US, Japan and the EU themselves.

That is why Jeffrey Garten, Dean of the School of Management at Yale University, in the *International Herald Tribune* on 4 June 2005, argued strongly that China, the US, Japan and the EU should immediately hold talks on what to do together about the rise of China in order to prevent more bouts of tensions and potential conflicts. So far China and the region have been lucky that the repercussions have been limited and that there have been countervailing developments such as the common concern with the important threat of global terrorism. However, this shared concern with terrorism will not be sufficient to avoid rising tensions.

Politically there is a real danger that China will be demonized by right-wing politicians in the US Congress and officials in the US Department of Defense, who always seem to need an enemy. Samuel Huntington predicted that, after the Cold War was over, China was likely to become the immediate target. The fight against terrorism has delayed resentment against China. But with the steady rise of China there is a

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rekindled “feeling” in the Defense Department that China is starting to hamper US interests everywhere (Iran, Sudan, the Middle East, Central Asia, North Korea and Japan). On her side, China feels that she is being besieged by the US, which has inroads into and allies in Central Asia, Afghanistan, Pakistan, India, ASEAN, Australia, Japan, and South Korea.

If the quest for energy and natural resources becomes acute, serious competition could emerge between China and the US (plus India and Japan). It would be a real mistake for the right wing in the US Congress and Defense Department to view China as another Soviet Union. China has no ideological contradiction with the US and has no ambition to rule the world as the Soviet Union did. It is normal that in the relationship between two great powers there will be cooperation and competition. China-US cooperation is of critical importance for peace, stability and development in East Asia and the wider Asia Pacific region.

Regional Cooperation and Integration

It is clear to East Asians that they must find a way to cope with a rising China in a positive manner. ASEAN gives great importance to the creation of an East Asian community in which China will be an integral part of the region's efforts to deal with the problems that arise due to China's enormous growth and development. It is hoped that in such an arrangement China would be encouraged to continue to be a status quo power.

This arrangement could also assist in the development of more positive relations between China and Japan. Relations today are at the lowest point since they were normalized in 1980. The problem is not only about the history between the two countries, but also about a

rising nationalism in both countries and a sense of competition for future supremacy in the region. That is why the East Asian Summit in Kuala Lumpur in December 2005 could help create the environment for better relations between the two. Improvement of the relations depends first and foremost on efforts by the two countries themselves, but ASEAN could be a catalyst or interlocutor through the creation of the right environment and, perhaps, by taking some initiatives. The US has a potential role to play, by encouraging normalization and restraint. However, she cannot go too far, because she is an ally of Japan and her approaches lack the subtlety to be able to handle this very delicate situation and relationship.

Importantly, Japan must first take responsibility for her past and openly discuss this with the region. If not only China and Korea but also the region more generally see visits by the Prime Minister to the Yasukuni shrine as highly disturbing, Japan and Prime Minister Koizumi had better listen seriously. A more serious offense is the museum annex in the Yasakuni compound, which gives an appalling interpretation of Japan's role in World War II, including its role in the killings in Nanjing. The region, including ASEAN, which has been more silent than China and Korea, has been taken aback by Prime Minister Koizumi's attitude on this matter. In the end the situation could reflect Japan's willingness or not to be a part of Asia completely. She could indeed be both part of the West and part of Asia, but East Asians feel that being part of Asia is only secondary for Japan. East Asia is changing fast and is going to become the most dynamic part of the world. It seems to others in East Asia that Japan is only grudgingly accepting this fact and her role in it. That has to change, because she has a most vital role as an interlocutor between East Asia and the West, especially the US. On the

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other hand China has to restrain her reactions and should find a *modus vivendi* with Japan if she wants to have the peaceful environment in East Asia which is so critical to the establishment of a potential East Asian Community.

In the end, the East Asian community also has a role in contributing to the future stable relationship between China and the US. This could be the most critical relationship in the future, with the greatest danger for potential clashes. As I said earlier, it has always been difficult to accept and adjust to a rising power. This is especially the case with China's sudden rise and the magnitude of her power and growth. In the case of China the good thing is that in a number of respects she is already integrated with the region as well as with the US and the EU: in trade, finance, and even politically (in the fight against international terrorism and the proliferation of nuclear arms in North Korea).

However, these positive characteristics cannot be taken for granted because there are many groups in the US which, for various reasons, might want to establish a united front against China. That is why the relationship has never been completely stable. The region could help overcome this by showing that China is friendly and cooperating positively with her neighbors in East Asia. The US can cooperate better with China through cooperation with the region as a whole (including China) than through cooperation in a bilateral setting.

To make this possible East Asia has to be embedded in the Asia Pacific region as a whole. This means that the East Asian regional initiative should form an important caucus in the Asia-Pacific Economic Cooperation (APEC) group and the Pacific Economic Cooperation Council

(PECC), which includes the US. For this to happen credibly and effectively, APEC and PECC will have to be reformed. PECC should become more proactive and flexible. It should strengthen its role as a forum to develop strategic concepts of regional community building. It should involve the many stakeholders of the Asia Pacific community, such as politicians, parliamentarians, the mass media, youth, civil societies, and business. Community building is too complex a process to be left to APEC governments alone. PECC should be at the forefront in Asia Pacific community building.

In the security field, it should be clear that the US military presence and dominance in East Asia and its role of last arbiter is critical for peace and stability in the Asia Pacific. The region, even including China, is not against a US military presence in East Asia. No government will oppose or confront the US openly in this part of the world, because US hegemony is the only existing regional security arrangement for maintaining peace and stability in this part of the world.

The region must anticipate and begin to develop a regional security architecture that can accommodate a rising China with a military might. Today US dominance is being implemented through its system of allies, of which Japan is the most important.

In addition ASEAN has already established a confidence-building mechanism, the ASEAN Regional Forum (ARF), where all regional countries and other countries that have a security "footprint" in the region can discuss a range of security matters and cooperate in a number of areas. However, this forum cannot solve hard military tensions or conflict.

The "six-party talks" on the North Korean

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nuclear weapons problem are an ad hoc effort to coordinate policies on North Korea – no more and no less. If successful, Northeast Asia could use the six-party talks further as an instrument for solving potential conflicts or discussing arising tensions in Northeast Asia.

ASEAN is a confidence-building institution par excellence for Southeast Asia. Since 1967 it has prevented open conflicts among the five founding members. It has contributed to finding a political solution for the Cambodian problem. ASEAN still has to find a solution for Myanmar's isolation due to its military authoritarian rule. It has agreed to strengthen its role in the region by establishing an ASEAN community that encompasses all fields: economic, security and socio-cultural.

The big question is how East Asia can complement the US role in the region. With the rise of China, existing "hub-and-spokes" arrangements might be no longer adequate. The rise of India, and its strategic partnership with the US, could form another pillar of the regional security architecture.

The concept of a "concert of powers", consisting of the US, China, Japan, Russia, India and ASEAN, has been aired before. In economic terms, US presence will be guaranteed through APEC (and PECC). In security terms any East Asian community building must also include the US. The East Asian community could entertain the idea of such a security framework for the future. Perhaps this framework could incorporate various sub-regional institutions that have a security purpose, such as the ASEAN Security Community, the ARF, and the six-party talks.

How the relationship between the major powers will evolve in the future will influence East

Asia's development. The relationship between China and Japan is a key to the region's development. Their mutual adjustments will be critical. It is the first time in East Asian history that both have been big powers at the same time. Their huge economic relations could help alleviate the tensions, but they might not be adequate for overcoming their deep "emotional" problems.

China-India relations still have some lingering problems due to the border war of 1962. Although the situation has greatly improved and economic relations have increased, the countries have not completely overcome their past animosities. As stated earlier, in the longer term the most critical relations are between China and the US, because China's rise could challenge the position of the US as the only superpower. And some in the right wing of public opinion, the US Congress and the Department of Defense will never accept the rise of another superpower, emotionally or politically.

The region does not think that China is an ideological state that intends to conquer the world and to impose a different political and economic system as the Soviet Union tried to do. She is mostly capitalistic in her economic strategy and, while she is not a democracy, she is acutely aware that she has to open her political system. However, she is doing this with a lot of trepidation and extremely slowly. In practice she no longer has a communist political system, but she has an authoritarian one. Being a communist country is only a façade to maintain the leadership's legitimacy.

China is likely to become just a "normal" great power, with which the US will have a competitive and cooperative relationship. She has sided with the US in the fight against

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terrorism, and is trying to help in the “denuclearization” of North Korea. But she is also putting more stress on multilateral approaches in dealing with new and old challenges and problems; in so doing, she might oppose some of the US tendency to behave unilaterally. A potential area of conflict between China and the US is in securing energy needs. China’s need for resources will be tremendous. Therefore, cooperation in this area should be promoted. China has to be more frugal and economic in the use of energy and resources and she has to pay more attention to pollution and the environment. In fact, her idea of creating a new model of development, distinct from that of the West, especially the US, could have a significant effect for her own future and that of the region and the world. The aims of her development should be to become less wasteful, to become less resource intensive, to use more renewable resources, and to give more attention to the environment and human security. The system should also be more transparent and more accountable to the people. It is not clear whether China’s leadership has enough authority to implement such a model of development.

What is important in establishing an East Asian Community is the region’s ability to cope with China (and also India). The US needs to be involved in the new equilibrium of power for East Asia. She needs to get involved in the security field, where she is the most prominent power in the region.

There are many regional institutions in East Asia and the Asia Pacific which are complementing the US strategy of hub-and-spokes security alliances: the ARF for confidence-building purposes, the six-party talks on the North Korea nuclear problem, and APEC for trade and investment. The US is not

directly involved in the emerging East Asia community, but is present through her allies (Japan, South Korea, Australia, Thailand and the Philippines) and also through APEC, where an East Asian economic community will be embedded.

In the end, however, this alphabet soup of regional institutions might not be adequate to solve the problem of the new balance of great powers in the Asia Pacific and East Asia. Therefore, there should be an East Asian group like the G-8, to coordinate and streamline all these activities. This G-8 would include the US, China, Japan, India, Russia, South Korea, Australia and ASEAN. It could be called the “Concert of East Asian Powers”. Like the G-8 at the global level, it should be organized as an “informal” meeting but would be well prepared by so-called “sherpas”.

Concluding Remarks

The forces of globalization are so huge, and are coming with such a speed, that even a regional institution such as the EU has difficulties in coping with them. Even the US, as the only superpower, experiences some difficulties in adjusting, although she appears to be doing better than other groups.

The new challenges of international terrorism have caused great damage globally because al-Qaeda has been able to involve local and regional terrorist groups. International and regional cooperation is critical, but the main effort should focus on assisting in the establishment of a real democracy and economic development with social justice.

The rise of China and India are new challenges that are no less complicated to deal with. The main effort here is to promote cooperation in

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many fields (economic, political, energy, and eventually security) amongst all important actors (the US, Japan, China, ASEAN, and India) with the aim of alleviating possible negative impacts of the rise of new regional powers. Another effort should be to encourage China (and India) to search for a new model of development that is prudent in the use of energy and natural resources, that is environmentally friendly, that is politically accountable, and that focuses clearly on enhancing human security.

An East Asian Community, established through ASEAN, could make an enormous contribution to regional peace and prosperity in the wider Asia Pacific region. The idea of a concert of East Asian Powers (the US, China, Japan, India, Russia, South Korea and ASEAN) should be explored, as it can complement regional efforts that have begun with the establishment of the ARF.

In the end, however, the region should be concerned with global changes and global responses in which it will make significant contributions. Many of the challenges for the region are global in nature and ultimately can be solved only through global efforts and global institutions. Regional efforts must be seen as complementing global efforts.

The main issue and challenge in the near future is the reform of the United Nations (UN) system, as has been acutely recognized by Secretary-General Kofi Annan himself in his proposal to the World Summit to be held in September 2005. In principle, UN reforms have to be undertaken in a comprehensive way and with the support of a large majority, ideally through a consensus. Reform should not focus on the Security Council alone. UN institutions were established almost 60 years ago. All need to

adjust and be relevant to the new era and challenges of the 21st century.

The reforms of the UN will have to include greater representation of the developing nations and greater involvement by the most powerful nations, including the US. In the meantime, people should recognize that the changes and the ensuing amendment of the UN Charter must be accepted and supported by all the five permanent members of the UN Security Council.

The UN system can never become perfect, but it is the best international institution and system we have. We cannot dismiss it; therefore we have to try to improve it. Legitimacy will always be needed in our efforts to uphold international order and peace; this legitimacy can be given only by international institutions on the basis of rules that are laid down by the UN Charter and other traditions. In the end the effectiveness of the UN system depends on the participation of its members, particularly the powerful countries.

The World Trade Organization (WTO) continues to play a critical role in trade, the International Monetary Fund (IMF) in monetary and financial matters and the World Bank in development. However, the role and authority of East Asian countries in these institutions must be increased commensurate with their position in the global economy. Otherwise the WTO, the IMF and the World Bank cannot be effective in the longer term.

In facing the new challenges, and based on the great experience in regionalism following World War II, East Asia and the Asia Pacific region should develop flexible structures that can be inclusive and be highly responsive to the needs and aspirations of their diverse stakeholders.